

Message Text

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41

ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 USIE-00 FRB-03 ABF-01 NEA-10

SSO-00 INRE-00 CIAE-00 DODE-00 INR-07 NSAE-00 PA-01

PRS-01 SP-02 AID-05 EB-07 NSC-05 CIEP-01 TRSE-00

SS-15 STR-04 OMB-01 CEA-01 IGA-02 OPR-02 AF-06 /094 W

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O R 051711Z EAR 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 9583

INFO AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY BONN

AMEMBASSY TOKYO

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DEPARTMENT PASS TREASURY FOR SYVRUD

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: RAPID DECLINE IN STERLING EXCHANGE RATE

1. AFTER A FALL OF 100 BASIS POINTS ON THURSDAY, STERLING CONTINUED ITS RAPID DECLINE ON FRIDAY. MARCH 5. THE STERLING RATE BROKE THROUGH THE \$2.00 POUND MARK AT ABOUT L:30 LOCAL TIME AND CONTINUED TO FALL THROUGHOUT THE AFTERNOON. AS OF 4:00 P.M. LONDON TIME, THE STERLING RATE WAS \$1.9850, A DECLINE OF 390 BASIS POINTS OVER THE TWO-DAY PERIOD.

2. ACCORDING TO BOE OFFICIAL THERE IS INTENSE SELLING OF STERLING ON A VERY BROAD FRONT. ALTHOUGH ONE LARGE MIDDLE EASTERN SELL ORDER WAS NOTED EARLY ON FRIDAY, THERE DOES NOT APPEAR TO BE ANY MAJOR IDENTIFIABLE SOURCE OF THE SELLING. HOWEVER, OFFICIAL STATES THAT GIVEN THE

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BROAD NATURE OF THE SELL ORDERS IT WOULD BE VERY DIFFICULT TO DEFINE ANY PARTICULAR SOURCE. THE SITUATION WILL CERTAINLY NOT BE AIDED BY THE FACT THAT THE BOE TODAY AGAIN CUT THE MINIMUM LENDING RATE BY 1/4 PERCENT, BRINGING THE RATE DOWN TO 9 PERCENT.

3. WHEN QUERIED AS TO BOE INTERVENTION, OFFICIAL RESPONDED THAT GIVEN THE INTENSITY OF THE MARKET, THERE WAS VERY LITTLE THAT THE BANK COULD DO TO SUPPORT THE RATE. THE MAJORITY OF EXCHANGE MARKET ACTIVITY APPEARS TO BE DOLLAR/STERLING IN NATURE AS THE RATE AGAINST CONTINENTAL CURRENCIES APPEARS TO BE HOLDING FAIRLY STEADY. THE EFFECTIVE DEPRECIATION HAS FALLEN TO A LEVEL GREATER THAN 31 PERCENT BUT THE RAPIDITY OF THE FALL HAS BEEN SUCH THAT THE BOE WAS NOT ABLE TO GIVE PRECISE FIGURES AT THE TIME OF THIS CABLE.

4. MARKET SOURCES INDICATE THAT THIS RAPID DECLINE COULD NOT HAVE COME ABOUT WITHOUT THE TACIT ACQUIESCENCE OF THE BOE ALTHOUGH BOE OFFICIAL DID STATE THAT THERE HAS BEEN NO CHANGE IN BOE INTERVENTION POLICY OR ATTITUDE TOWARD THE RATES. ALTHOUGH MOZAMBIQUE/RHODESIAN SITUATION HAS ADDED TO UNSETTLED MARKET CONDITIONS, SOURCES SAY ANY DIRECT CONNECTION IN RELATION TO STERLING'S DECLINE WOULD BE CONJECTURE AT THIS POINT.

ARMSTRONG

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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

Message Attributes

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Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

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